



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

19 April 2024

Infosys

One-off impacts 4Q; FY25 revenue guidance conservative

Infosys (INFY) posted weak 4Q numbers on one-off impact on re-negotiation of a contract. Adjusting for the same, FY24 revenue grew at the lower end of the guided range. Management's revenue guidance for FY25 seems conservative and reflects i) no change to discretionary spending outlook for FY25, which continues to be weak at 3Q and 4Q FY24 levels, ii) seasonal weakness in 2HFY25, similar to FY24, and iii) lower manufacturing growth in FY25. Management has given conservative margin guidance for FY25 (keeping it at a similar level of FY24) despite all levers (higher utilization, rationalization of subcon, etc.) intact. We estimate this could be to accommodate the impact of likely re-negotiations in some of the other contracts. We have cut our revenue estimate to factor in the lower growth in FY25 and estimate 4.5% USD CAGR over FY23-26E. We estimate margins in the lower half of the guided range (earlier estimated at the upper half) to accommodate any one-time impact that could arise. We maintain BUY with a revised target price of Rs 1,660 (from Rs 2,000 earlier), based on 25x FY26E EPS (reduced from 26x to factor in the widened margin differential vs benchmark TCS). Key risks to our assumptions: 1) Abrupt exit/s from the leadership team, 2) sustained pressure on client discretionary spending in FY26, 3) continued re-negotiation of contracts impacting revenue and margins.

Weak FY24; recovery likely in FY25

For 4Q, the company reported flat YoY growth in CC, 0.2% in USD and 1.3% in INR terms. Europe and Rest of World (RoW) markets drove the growth, while North America and India markets remained weak during the quarter. Manufacturing, life sciences, energy & utilities, technology, and communication verticals drove growth, while BFSI and retail stayed weak during 4Q. INFY recorded large deal value (TCV – total contract value) of USD 4.5bn in 4Q, which comprised 30 deals, 44% of which were net new deals, including the 2 mega deals. This provides revenue visibility for FY25 and contains many short-term deals to be executed over the next 1 year. Management has provided 1% to 3% revenue growth guidance in CC for FY25.

Decline in operating margins

EBIT margin declined 40 bps QoQ to 20.1% due to 100 bps headwind from one-time impact of contracts, renegotiations, and re-scoping, and 80 bps headwind from additional impact on salary increases, higher brand building, and visa expenses, partially offset by 140 bps tailwinds comprising 60 bps from lower provision towards client receivables, 40 bps from project maximus, and 40 bps relating to reversal of 3Q impact from cyber incident (USD30mn impact in Q3 vs USD7-8mn impact in Q4).

Valuation & Outlook

At 23x 1-year forward multiple, INFY trades at a 15%+ premium to its last 10-year average multiple. On a relative basis, we value INFY at 25x FY26E EPS (15% discount to TCS target multiple) to arrive at a target price of Rs 1,660 per share. The discount reflects its relatively lower-margin profile to TCS. INFY's target multiple reflects i) the company's strong market positioning, ii) its status as key beneficiary of vendor consolidation, iii) its lower-margin profile to TCS, but better than HCLT (HOLD), WPRO (HOLD), TECHM (SELL), and iii) its healthy shareholder payout, etc.

RESULT UPDATE

Sector: IT & ITES Rating: BUY

CMP: Rs 1,419 Target Price: Rs 1,660

Stock Info

Sensex/Nifty	72,489/21,996
Bloomberg	INFY IN
Equity shares (mn)	4142
52-wk High/Low	1733 / 1185
Face value	Rs 5
M-Cap	Rs 5878.5bn/USD 70.8bn
3-m Avg turnover	USD 123.6mn

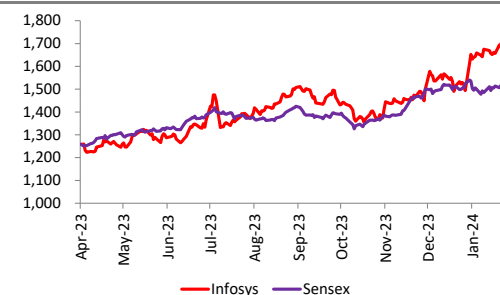
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Net sales	15,36,710	15,99,112	17,27,418
EBIT	3,17,470	3,25,428	3,54,108
EBIT (%)	20.7%	20.4%	20.5%
PAT	2,62,330	2,52,543	2,75,161
EPS	63.3	61.0	66.4
P/E (x)	22.4	23.3	21.4
P/B (x)	6.7	6.3	5.8
EV/EBITDA (x)	15.4	14.9	13.7
RoE (%)	29.8%	27.0%	27.2%
RoCE (%)	38.0%	35.0%	35.5%

Shareholding Pattern (%)

	Dec'23	Sep'23	Jun'23
Promoter	14.8	14.9	14.9
- Pledged	-	-	-
FII	33.7	33.6	33.4
DII	35.7	35.4	34.8
Others	15.8	16.1	16.8

Stock Performance (1-year)



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What do the 4QFY24 result numbers say?

- INFY's 4QFY24 revenue growth is as follows: a) down 2.2% QoQ and flat YoY in CC terms, b) down 2.1% QoQ and up 0.2% YoY at USD 4,564mn in dollar terms, and c) down 2.3% QoQ and up 1.3% YoY at Rs 3,79,230mn in rupee terms.
- In USD revenue terms, North America and India showed a decline of 2.1% and 15.2% YoY, respectively. The two businesses make up for over 60% of INFY's revenue mix, whereas Europe grew at 6.2% YoY. Communication, energy & utilities, manufacturing, hi-tech and life sciences verticals (over 50% of revenue mix) reported YoY growth of 4.5%, 4.1%, 9.1%, 9% and 1.6%, respectively, while the BFSI and retail verticals witnessed 8.4% and 3.2% YoY decline, respectively.
- EBIT margin declined 40 bps QoQ to 20.1%, impacted by 100 bps headwind from one-time impact of contracts, renegotiation, and re-scoping, and 80 bps headwind from additional impact on salary increases, higher brand building, and visa expenses, partially offset by 140 bps tailwinds, comprising of 60 bps from lower provision for client receivables, 40 bps from project maximus, and 40 bps relating to 3Q impact from the cyber incident.
- For FY24, INFY reported revenue growth of a) 1.4% in CC terms, b) up 1.9% in dollar terms at USD 18,562mn, and c) up 4.7% in rupee terms at Rs. 15,36,710mn. The company reported EBIT margin of 20.7% in FY24, down 40 bps YoY. INFY declared a final dividend of Rs 20 per share along with a special dividend of Rs 8 per share in 4Q, taking its total dividend payout for FY24 to Rs 36 per share.
- INFY's robust large deal TCV of USD 4.5bn was up by 41% QoQ from a total 30 deals, of which 44% were net new deals and include 2 mega deals. The 30 deals are split up as follows: 8 from communication, 6 each from BFSI and retail, 4 each from manufacturing and life sciences and 2 from energy & utilities. Geography-wise, 16 were from North America, 10 from Europe, and 4 from RoW. For FY24, the company recorded a large deal TCV of USD 17.7bn, up by 80% YoY with a total of 90 deals.
- During the quarter, its attrition declined 30 bps QoQ to 12.6% during LTM. Currently, the company has an employee strength of 3,17,240.

Earnings call highlights

- Management expects to record slower growth in the US market in FY25 but is hopeful of Europe driving growth. The company expects fluctuations in the behaviors of industries in the US markets. For instance, it believes high interest rate capital-intensive industries like hi-tech and telecom may see weakness, but has a superior outlook on BFSI for FY25 vs FY24. The company however ruled out shifting focus to the Europe market vs US, citing both markets would remain strategic markets for them. The company did mention that they have strong presence in Nordic countries and expects their strong client relationships in the Europe market to drive growth.
- The company announced the acquisition of **In-tech holding** for EUR 450mn (EUR 170mn revenue in CY23), a leading engineering R&D (ER&D) services provider focused on the German automotive industry. The company mentioned that ER&D, especially within the automobiles vertical, has a strong runaway ahead, as car manufacturing companies are re-looking at the way cars are being manufactured. There has been an increased traction in areas like engineering, IoT (Internet of Things), supply chain, smart manufacturing, and digital

transformation. The company already has strong presence in ER&D (with a good margin profile), and it expects this acquisition to strengthen its position, as the addressable market for ER&D is large. The company's revenue and margin guidance for FY25 does not factor in any impact of the acquisition, according to management.

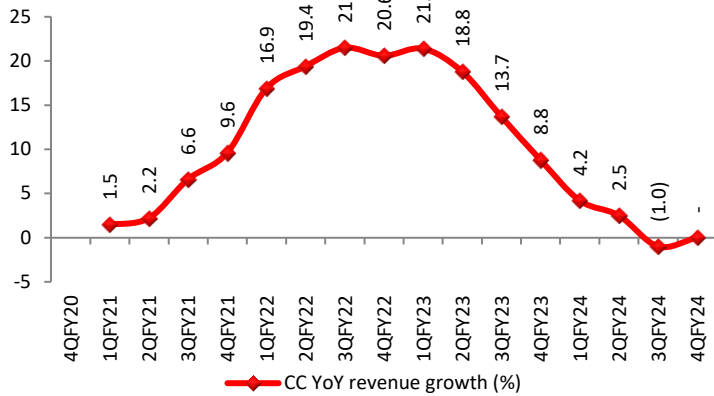
- The company mentioned that its FY25 revenue guidance reflects i) no change to FY25 discretionary spending outlook, which remains weak, as seen during 3Q and 4QFY24 ii) seasonal weakness in 2HFY25, which it believes would be like FY24, and iii) Slower manufacturing growth in FY25 vs FY24. The company does not expect re-negotiations in other mega deals as of now, which, during 4Q saw a 100bps impact on revenues and margins. The company did mention that 85% of the scope remains the same for this contract. INFY has higher exposure to discretionary work in its BFSI portfolio, which is impacting the company's growth in FY24. In addition, it also has exposure to mortgages, which have stayed soft in this environment, however management sees recovery on these subsegments in FY25.
- The board has approved capital allocation policy for the next 5 years. Effective FY25, the company expects to continue the policy of returning approximately 85% of free cash flows, cumulatively over a 5-year period, through a combination of a semi-annual dividend, share buyback, and special dividend.

Exhibit 1: Infosys - Quarter results (Consol.)

(Rs mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Revenue USD mn	4,554	4,617	4,718	4,663	4,564	0.2	(2.1)	18,212	18,562	1.9
Revenue INR mn	3,74,410	3,79,330	3,89,940	3,88,210	3,79,230	1.3	(2.3)	14,67,670	15,36,710	4.7
Employee costs	2,03,110	2,07,810	2,07,960	2,06,510	2,03,930	0.4	(1.2)	7,83,590	8,26,210	5.4
Subcontractor costs	31,160	31,240	30,740	30,660	29,670	(4.8)	(3.2)	1,40,590	1,22,310	(13.0)
Travel costs	4,260	4,620	4,390	3,870	4,710	10.6	21.7	15,250	17,590	15.3
Other expenses	45,900	45,020	52,450	55,800	53,080	15.6	(4.9)	1,76,940	2,06,350	16.6
EBITDA	89,980	90,640	94,400	91,370	87,840	(2.4)	(3.9)	3,51,300	3,64,250	3.7
Depreciation	11,210	11,730	11,660	11,760	11,630	3.7	(1.1)	42,250	46,780	10.7
EBIT	78,770	78,910	82,740	79,610	76,210	(3.2)	(4.3)	3,09,050	3,17,470	2.7
Finance costs	820	900	1,380	1,310	1,100	34.1	(16.0)	2,840	4,690	65.1
Other income	6,710	5,610	6,320	7,890	27,290	306.7	245.9	27,010	47,110	74.4
PBT	84,660	83,620	87,680	86,190	1,02,400	21.0	18.8	3,33,220	3,59,890	8.0
Tax	23,320	24,170	25,530	25,060	22,650	(2.9)	(9.6)	92,140	97,410	5.7
PAT	61,340	59,450	62,150	61,130	79,750	30.0	30.5	2,41,080	2,62,480	8.9
Share of JVs	(60)	-	(30)	(70)	(60)	-	(14.3)	(130)	(150)	15.4
PAT after JV share	61,280	59,450	62,120	61,060	79,690	30.0	30.5	2,40,950	2,62,330	8.9
EPS (Rs)	14.8	14.4	15.0	14.7	19.2	29.9	30.4	57.6	63.3	9.9
As a % of Revenue						YoY (bps)	QoQ (bps)			YoY (bps)
Employee costs	54.2	54.8	53.3	53.2	53.8	(47)	58	53.4	53.8	37
Subcontractor costs	8.3	8.2	7.9	7.9	7.8	(50)	(7)	9.6	8.0	(162)
Travel costs	1.1	1.2	1.1	1.0	1.2	10	25	1.0	1.1	11
Other expenses	12.3	11.9	13.5	14.4	14.0	174	(38)	12.1	13.4	137
EBITDA margin	24.0	23.9	24.2	23.5	23.2	(87)	(37)	23.9	23.7	(23)
Depreciation	3.0	3.1	3.0	3.0	3.1	7	4	2.9	3.0	17
EBIT margin	21.0	20.8	21.2	20.5	20.1	(94)	(41)	21.1	20.7	(40)
Finance costs	0.2	0.2	0.4	0.3	0.3	7	(5)	0.2	0.3	11
Other income	1.8	1.5	1.6	2.0	7.2	540	516	1.8	3.1	123
PBT	22.6	22.0	22.5	22.2	27.0	439	480	22.7	23.4	72
Effective Tax Rate	27.5	28.9	29.1	29.1	22.1	(543)	(696)	27.7	27.1	(58)
PAT	16.4	15.7	15.9	15.7	21.0	465	529	16.4	17.1	65

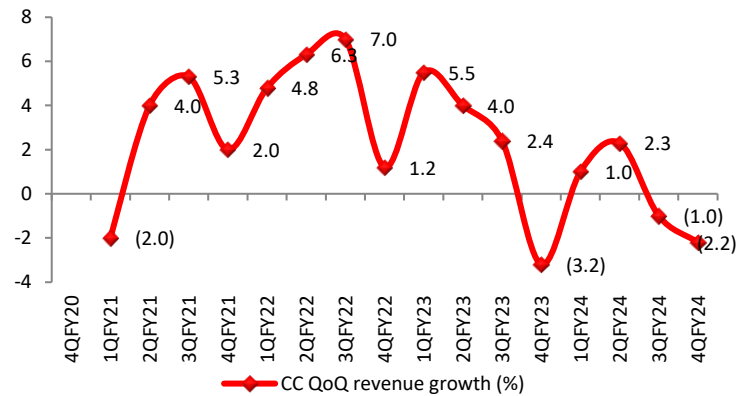
Source: Company, Systematix Institutional Research

Exhibit 2: CC YoY revenue growth (%)



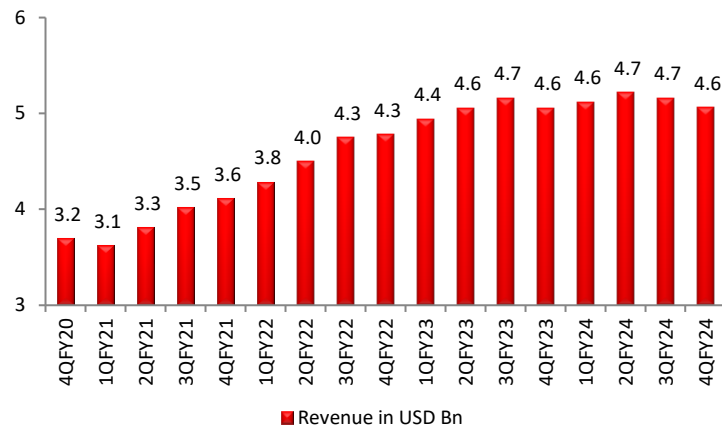
Source: Company, Systematix Institutional Research

Exhibit 3: CC QoQ revenue growth (%)



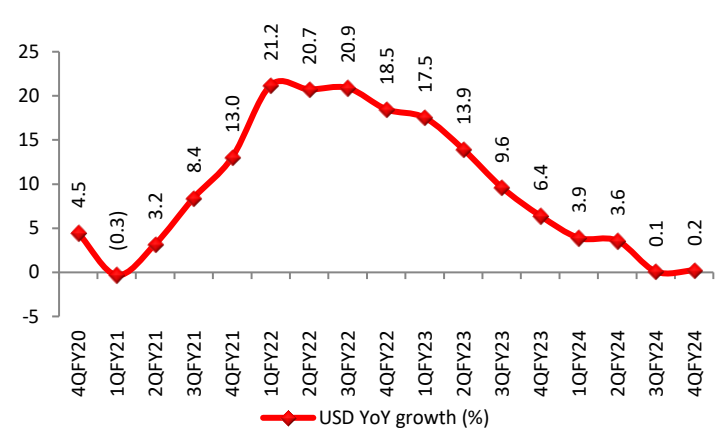
Source: Company, Systematix Institutional Research

Exhibit 4: USD revenue trend



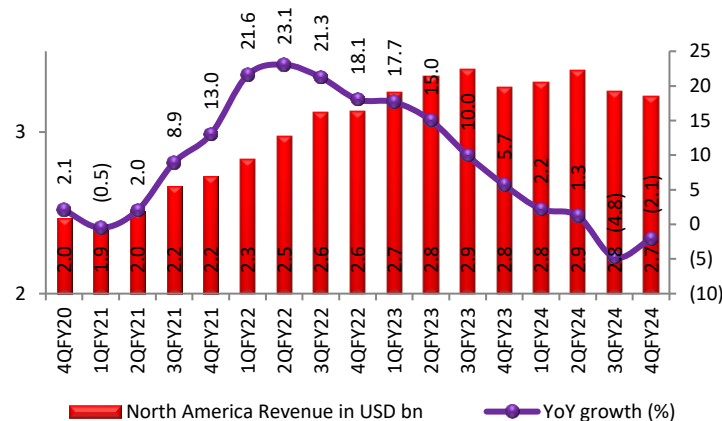
Source: Company, Systematix Institutional Research

Exhibit 5: USD YoY growth



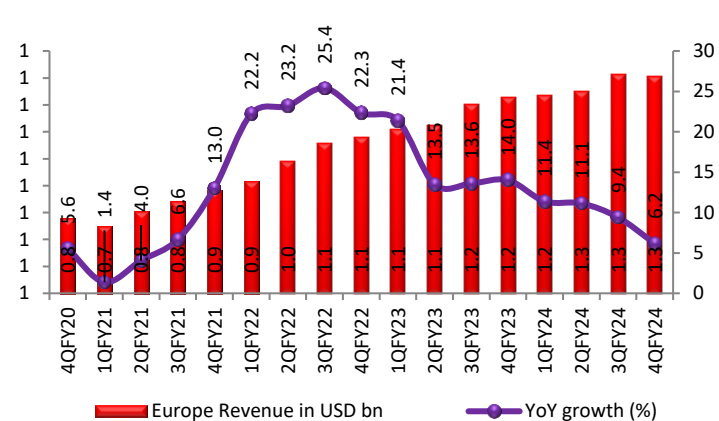
Source: Company, Systematix Institutional Research

Exhibit 6: North America - Revenue trend



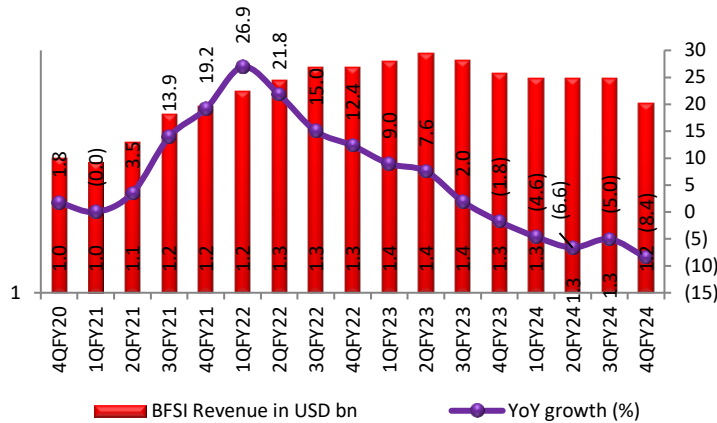
Source: Company, Systematix Institutional Research

Exhibit 7: Europe - Revenue trend



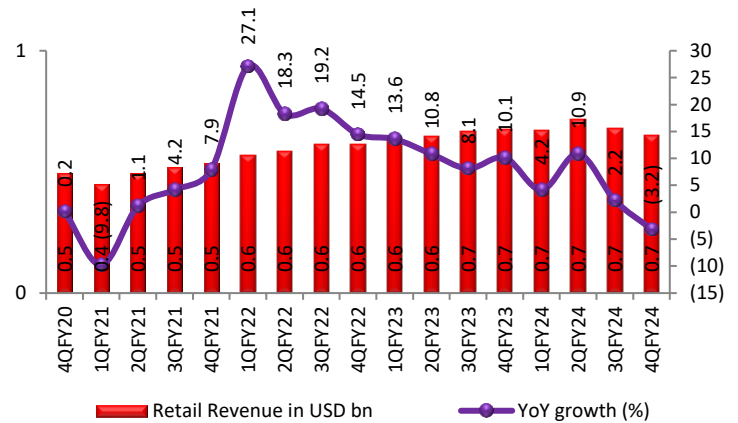
Source: Company, Systematix Institutional Research

Exhibit 8: BFSI - Revenue trend



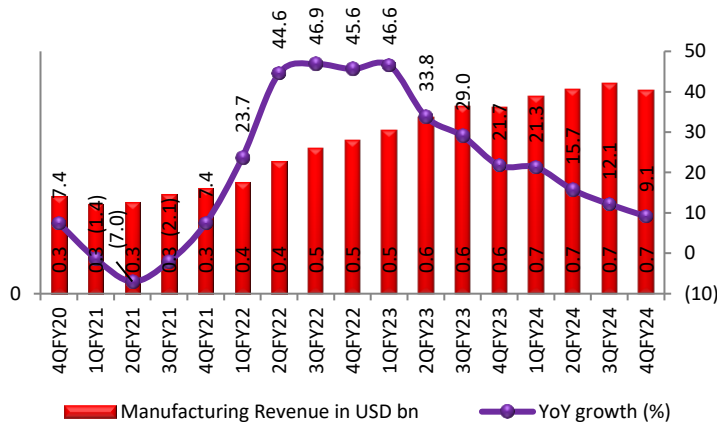
Source: Company, Systematix Institutional Research

Exhibit 9: Retail - Revenue trend



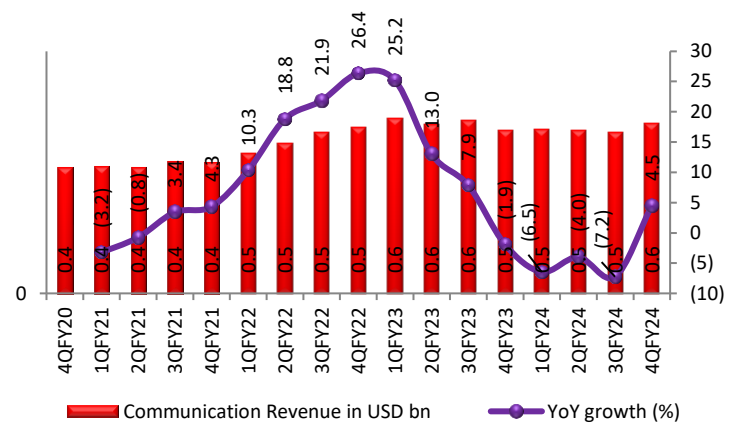
Source: Company, Systematix Institutional Research

Exhibit 10: Manufacturing - Revenue trend



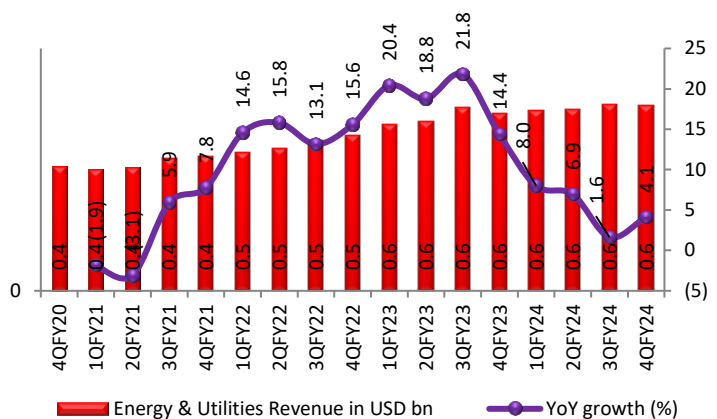
Source: Company, Systematix Institutional Research

Exhibit 11: Communication - Revenue trend



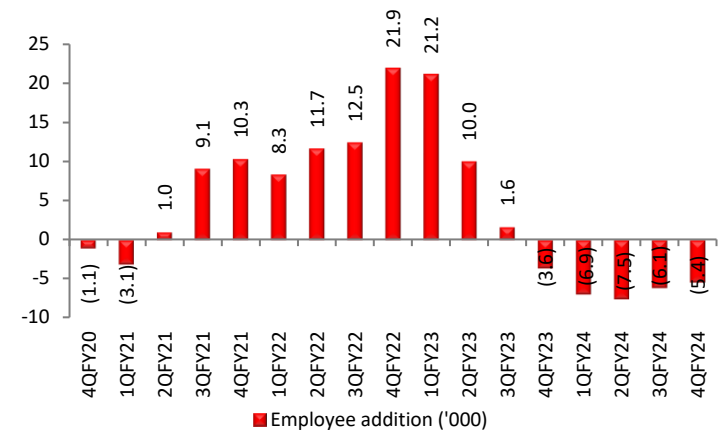
Source: Company, Systematix Institutional Research

Exhibit 12: Energy & Utilities - Revenue trend

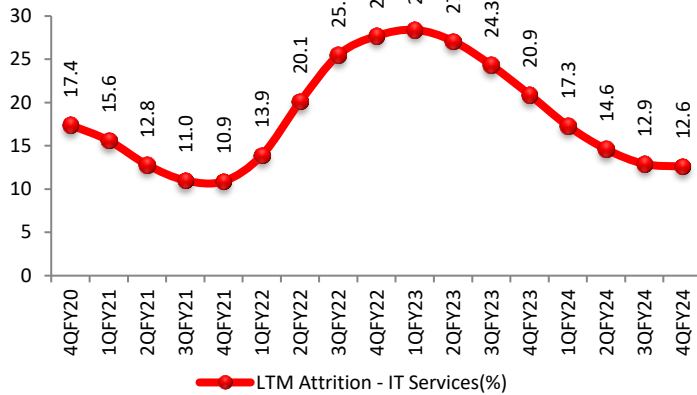


Source: Company, Systematix Institutional Research

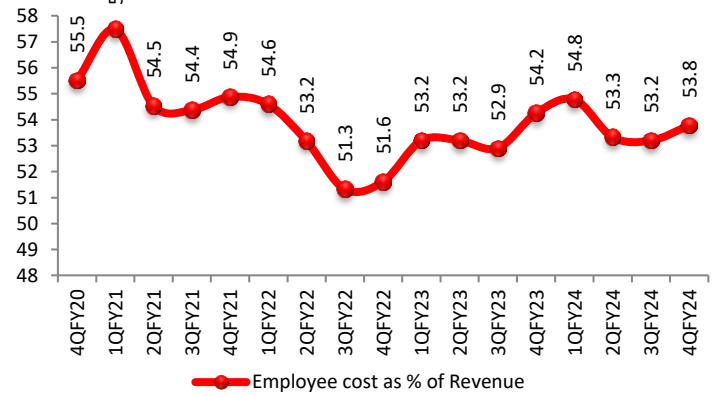
Exhibit 13: Employee net addition trend



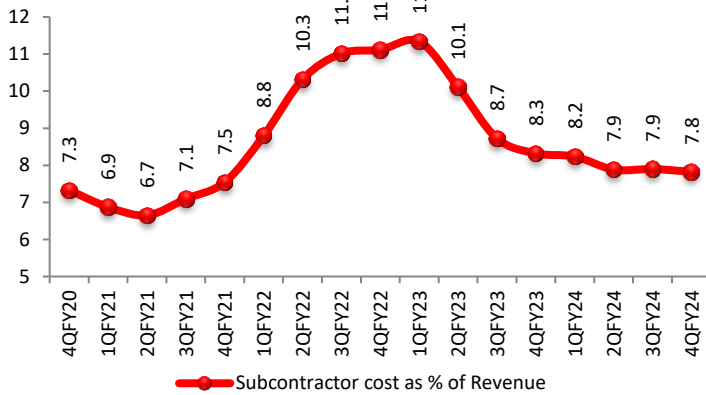
Source: Company, Systematix Institutional Research

Exhibit 14: LTM (Last twelve months) attrition trend

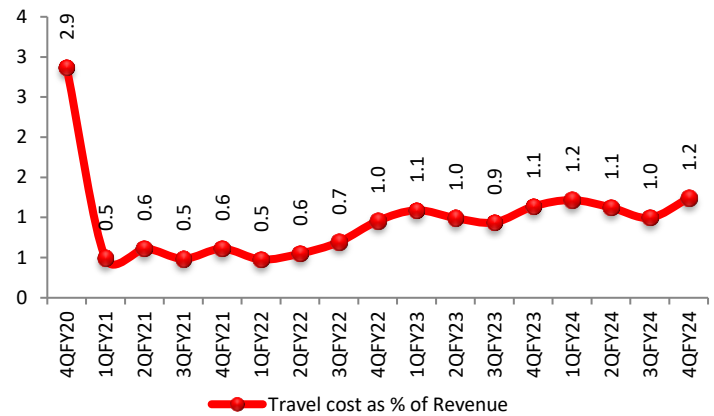
Source: Company, Systematix Institutional Research

Exhibit 15: Employee cost as a % of sales

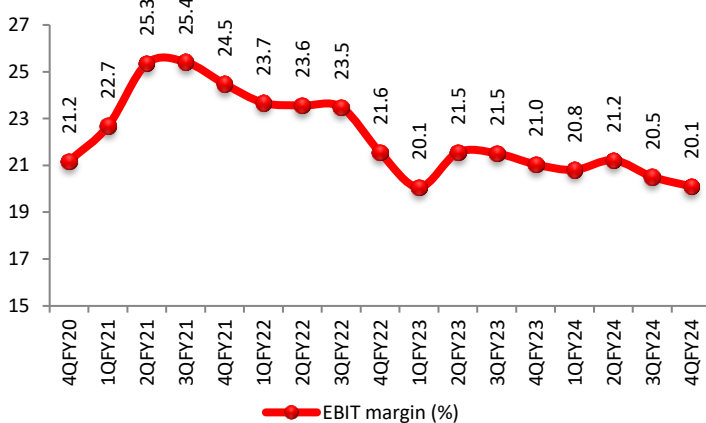
Source: Company, Systematix Institutional Research

Exhibit 16: Subcontractor cost as a % of sales

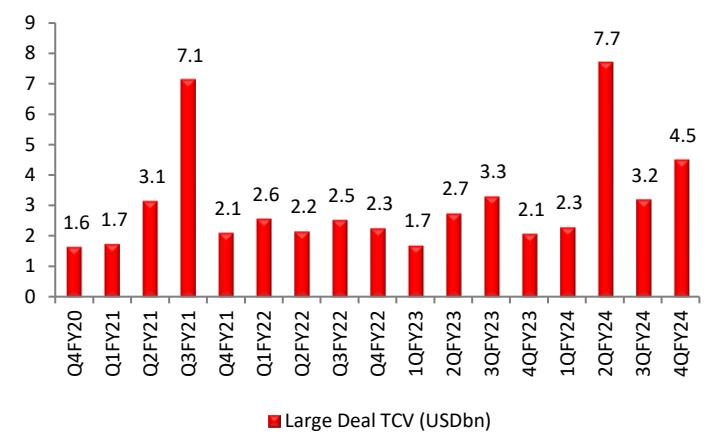
Source: Company, Systematix Institutional Research

Exhibit 17: Travel cost as a % of sales

Source: Company, Systematix Institutional Research

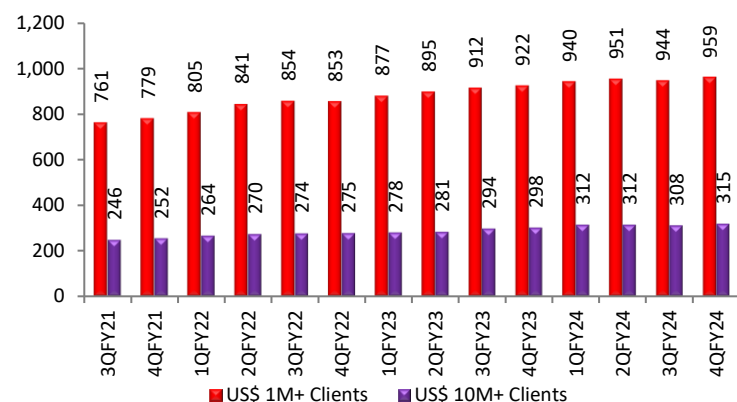
Exhibit 18: EBIT margin trend

Source: Company, Systematix Institutional Research

Exhibit 19: Large deal TCV trend

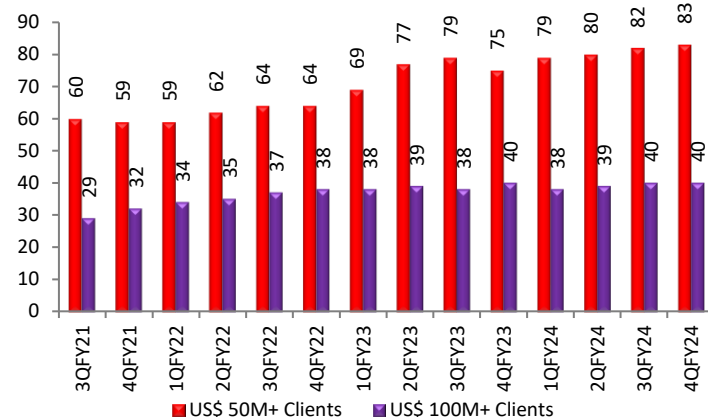
Source: Company, Systematix Institutional Research

Exhibit 20: Client addition trend



Source: Company, Systematix Institutional Research

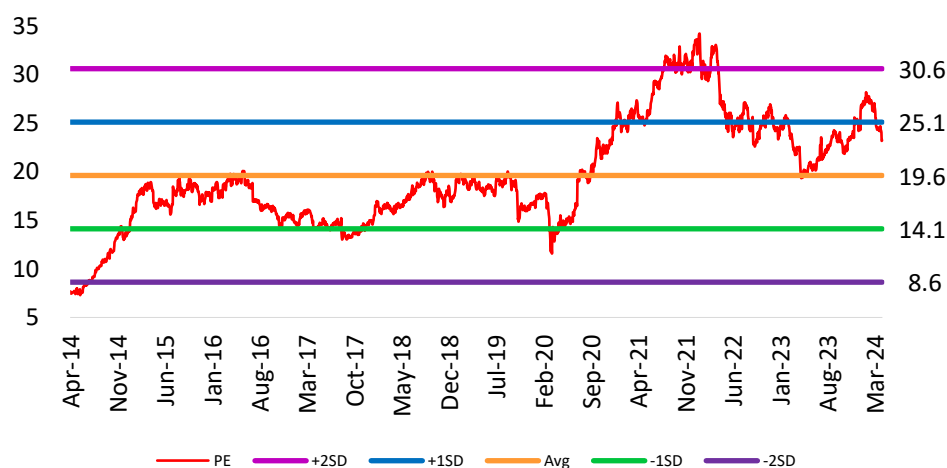
Exhibit 21: Client addition trend



Source: Company, Systematix Institutional Research

Valuation

Exhibit 22: 1-year forward P/E



Source: Company, Systematix Institutional Research

Exhibit 23: Change in Estimates

(Rs mn)	Old estimates		New estimates		Variance (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Total Income	16,45,359	18,14,936	15,99,112	17,27,418	(2.8)	(4.8)
EBIT	3,54,179	3,99,994	3,25,428	3,54,108	(8.1)	(11.5)
EBIT margin (%)	21.5	22.0	20.4	20.5	-118 bps	-154 bps
PAT	2,83,735	3,19,091	2,52,543	2,75,161	(11.0)	(13.8)
EPS (Rs)	68.5	77.1	61.0	66.4	(11.0)	(13.8)

Source: Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	12,16,410	14,67,670	15,36,710	15,99,112	17,27,418
Employee benefit exp.	6,39,860	7,83,590	8,26,210	8,59,065	9,26,607
Other expenses	2,61,640	3,32,780	3,46,250	3,67,589	3,99,353
EBITDA	3,14,910	3,51,300	3,64,250	3,72,458	4,01,457
EBITDA margin	25.9%	23.9%	23.7%	23.3%	23.2%
Depreciation	34,760	42,250	46,780	47,030	47,349
EBIT	2,80,150	3,09,050	3,17,470	3,25,428	3,54,108
EBIT margin (%)	23.0	21.1	20.7	20.4	20.5
Interest expense	2,000	2,840	4,690	4,400	4,400
Other income	22,950	27,010	47,110	33,170	35,904
Profit before tax	3,01,100	3,33,220	3,59,890	3,54,198	3,85,612
Taxes	79,640	92,140	97,410	1,01,655	1,10,451
PAT	2,21,100	2,40,950	2,62,330	2,52,543	2,75,161
EPS	52.5	57.6	63.3	61.0	66.4

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	20,980	20,690	20,710	20,710	20,710
Reserves & Surplus (Ex OCI)	7,32,520	7,33,380	8,60,450	9,14,177	9,90,521
Net worth	7,53,500	7,54,070	8,81,160	9,34,887	10,11,231
Deferred Tax Liability	11,560	12,200	17,940	20,420	22,900
Minority Interest	3,860	3,880	3,450	3,450	3,450
Trade payables	41,340	38,650	39,560	41,166	44,469
Other Provisions	10,670	13,900	18,850	18,860	18,870
Other liabilities	3,57,920	4,35,460	4,17,180	4,18,180	4,19,180
Total Liabilities	11,78,850	12,58,160	13,78,140	14,36,963	15,20,101
Net block	2,63,040	2,96,720	2,80,700	2,83,670	2,86,321
Other Non-current asset	1,07,450	1,26,940	86,040	86,240	86,440
Investments	2,03,240	1,94,780	2,46,230	2,49,730	2,53,230
Cash and Cash Equivalents	1,74,720	1,21,730	1,47,860	1,87,762	2,39,350
Debtors	2,26,980	2,54,240	3,01,930	3,14,191	3,39,400
Other current asset	2,03,420	2,63,750	3,15,380	3,15,370	3,15,360
Total Assets	11,78,850	12,58,160	13,78,140	14,36,963	15,20,101

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	3,01,100	3,33,220	3,59,890	3,54,198	3,85,612
Depreciation	34,760	42,250	46,780	47,030	47,349
Interest	2,000	2,840	4,690	4,400	4,400
Other Income					
(incl. interest recvd)	-16,450	-18,170	-20,670	-33,170	-35,904
Operating Profit before					
WC Changes	3,37,590	3,83,190	3,95,230	3,72,458	4,01,457
Incr./((decr.) in WC	11,830	65,030	50,820	9,854	21,106
Others including taxes	76,120	87,940	92,310	99,155	1,07,951
Operating cash-flow	2,49,640	2,30,220	2,52,100	2,63,448	2,72,400
Capex	21,610	25,790	22,010	50,000	50,000
Free cash-flow	2,28,030	2,04,430	2,30,090	2,13,448	2,22,400
Dividend	1,27,310	1,36,530	1,46,920	1,98,816	1,98,816
Fin Investments	59,770	(12,990)	44,660	3,500	3,500
Misc. Items (CFI + CFF)	1,12,850	1,33,300	12,420	(28,770)	(31,504)
Net Δ in cash	(72,420)	(52,990)	26,130	39,902	51,588

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
Revenue growth	21.1%	20.7%	4.7%	4.1%	8.0%
EBIT (%)	23.0%	21.1%	20.7%	20.4%	20.5%
RoCE	36.3%	40.2%	38.0%	35.0%	35.5%
RoNW	29.3%	32.0%	29.8%	27.0%	27.2%
EPS (Rs)	53	58	63	61	66
DPS (Rs)	31	34	36	40	40
Debtor days	68	63	72	72	72
P/E (x)	27	25	22	23	21
P/B (x)	8	8	7	6	6
EV/EBITDA (x)	18	16	15	15	14

Source: Company, Systematix Institutional Research

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